

## Message Text

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ACTION NEA-11

INFO OCT-01 EUR-12 EA-10 ISO-00 CIAE-00 DODE-00 PM-05  
H-01 INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02  
SS-15 ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /114 W  
-----055203 271741Z/43

R 271035Z JUN 78

FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC 7853  
INFO AMEMBASSY DACCA  
AMEMBASSY KABUL  
AMEMBASSY LONDON  
AMEMBASSY MANILA  
AMEMBASSY NEW DELHI  
AMEMBASSY PARIS  
AMEMBASSY TEHRAN  
AMCONSUL KARACHI  
AMCONSUL LAHORE

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MANILA FOR ADB; PARIS FOR USOECD

E.O. 11652: N/A  
TAGS: EGEN, PK  
SUBJECT: ALL HELP TO THE PRIVATE SECTOR

1. SUMMARY: AT A RECENT SPEECH AT THE KARACHI STOCK EXCHANGE GENERAL ZIA OFFERED THE PRIVATE SECTOR INCENTIVES WHICH HE SAID WERE BEYOND WHAT THEY ENJOYED "DURING THE GOLDEN ERA OF THE 1960S." ZIA SAID PAKISTAN HAD GONE THROUGH TWO ECONOMIC PERIODS, ONE CHARACTERIZED BY GROWTH AND UNEQUAL DISTRIBUTION OF WEALTH, THE OTHER CHARACTERIZED BY STATED INTENTIONS OF EQUALITY BUT WITH NO RESULTS ON EITHER THE PRODUCTIVITY OR DISTRIBUTION FRONTS. HIS PACKAGE INCLUDES A CONSTITUTIONAL GUARANTEE AGAINST

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NATIONALIZATION, FURTHER DENATIONALIZATIONS, EXTENSION OF TAX CREDITS AND CONSIDERATION OF OTHER TAX RELIEF AND LOWER BANK RATES. ZIA'S INCENTIVES PLACE HIS ADMINISTRATION SQUARELY IN THE FIRST (I.E., PRE-BHUTTO) PERIOD. IT IS NOT CLEAR HOW HE PLANS TO SQUARE THIS RETURN TO "TRICKLE-DOWN" ECONOMICS WITH THE CURRENT EMPHASIS ON BASIC HUMAN NEEDS AND GROWTH WITH EQUITY. HE ALSO TOOK THE OCCASION TO BLAME SHORTAGES OF ESSENTIAL COMMODITIES ON

UNSCRUPULOUS TRADERS AND ASKED FOR SUGGESTIONS FOR WAYS TO CONTROL PRICES. END SUMMARY.

2. GENERAL ZIA TOOK THE OCCASION OF HIS APPEARANCE AT THE ANNIVERSARY CELEBRATION ON JUNE 20 OF THE FOUNDING OF THE KARACHI STOCK EXCHANGE TO SAY IN CLEAR BUT INELEGANT LANGUAGE THAT THE GOP IS WILLING TO OFFER THE PRIVATE SECTOR INCENTIVES "BEYOND THE EXPECTATIONS OF THE PRIVATE SECTOR AS ENJOYED BY THEM DURING THE GOLDEN ERA OF THE 1960S." ZIA SAID THE GOVERNMENT IS PREPARED TO GIVE "CONSTITUTIONAL GUARANTEES THAT NO PRIVATE PROPERTIES AND ENTERPRISES PERMISSIBLE UNDER ISLAMIC PROVISIONS WOULD BE DISTRUBED." WHILE NO GOVERNMENT CAN GIVE AN OPEN-ENDED GUARANTEE AGAINST NATIONALIZATION, THE EXPRESSION OF INTENT MAY ENCOURAGE THE PRIVATE SECTOR. MORE IMPORTANT WOULD HAVE BEEN A SPELLING OUT OF PROVISIONS ABOUT TERMS OF COMPENSATION, E.G., TIME LIMIT FOR FULL COMPENSATION AND BASIS FOR VALUATION OF ASSETS FOR FIRMS WHICH MAY BE NATIONALIZED IN THE FUTURE.

3. PERHAPS MOST SIGNIFICANTLY, ZIA SAID PAKISTAN HAD GONE THROUGH TWO ECONOMIC PERIODS, ONE IN WHICH WEALTH WAS CONCENTRATED IN THE HANDS OF A FEW AND ANOTHER WHICH ATTEMPTED TO DISTRIBUTE PAKISTAN'S WEALTH MORE EQUITABLY. PRODUCTION INCREASED DURING THE FIRST PERIOD BUT NEITHER PRODUCTION NOR THE COMMON MAN BENEFITED DURING THE SECOND. HE DID EXPRESS CONCERN OVER THE GAP BETWEEN THE RICH AND POOR IN PAKISTAN AND SAID THAT THE PRESENT GOVERNMENT WANTS TO SEE A PARTNERSHIP BETWEEN THE PUBLIC AND LIMITED OFFICIAL USE

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PRIVATE SECTOR FOR THE BENEFIT OF ALL.

4. ZIA ALSO MENTIONED THE LIKELIHOOD OF FURTHER DENATIONALIZATIONS, "PARTICULARLY IN THE ENGINEERING SECTOR, DEPENDING ON THEIR PERFORMANCE." THIS IS CONSISTENT WITH A RECENT CONVERSATION THE DCM HAD WITH ABDUL MAJID MUFTI, SECRETARY, MINISTRY OF PRODUCTION, IN WHICH MUFTI SAID THAT A LIGHT ENGINEERING FIRM AROUND NOWSHERA WOULD BE DENATIONALIZED (ALTHOUGH THE DENATIONALIZATION HASN'T YET MATERIALIZED). MUFTI ADDED THAT THE GOVERNMENT WAS CONSIDERING STILL FURTHER DENATIONALIZATION OF LIGHT ENGINEERING COMPANIES.

5. ZIA WENT ON TO SAY THE TAX EXEMPTION FOR CAPITAL GAINS, WHICH WAS DUE TO EXPIRE JUNE 30, WOULD BE EXTENDED AND TO CLARIFY THE EXEMPTION OF DIVIDENDS OF CORPORATIONS LISTED ON THE STOCK EXCHANGE SINCE JULY 1, 1977. THE EXEMPTION WOULD TAKE EFFECT WHEN THE FIRM BEGINS PRODUCTION. IN PRACTICE MANY PAKISTANI OWNERS HAVE USED THIS TAX BREAK TO MILK THEIR FIRMS VIA UNREALISTICALLY HIGH PAY-OUTS. EITHER THE FIRM ULTIMATELY BECOMES A SHELL WHICH MUST GO UNDER OR BORROW HEAVILY FOR WORKING CAPITAL, REPLACEMENT, AND EXPANSION. PERIODS OF ECONOMIC AND POLITICAL UNCERTAINTY SUCH AS PAKISTAN IS PASSING THROUGH HEIGHTENS THE TEMPTATION TO MISUSE

THE DIVIDENT EXEMPTION.

6. ZIA ALSO SAID THAT LOWERING INTEREST RATES ON LOANS WAS UNDER CONSIDERATION, WITHOUT SAYING HOW IT WOULD BE ACCOMPLISHED, ALONG WITH LIFTING THE TEN PERCENT INCOME TAX SURCHARGE ON 1977-78 INCOME.

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7. ZIA EXHORTED THE OWNERS OF DENATIONALIZED AGRO-BASED INDUSTRIES TO LIVE UP TO THEIR PROMISES OF FAIR PRICING AND SUPPLY. ABOUT SUPPLY, ZIA ALSO REFERRED TO SHORTAGES OF CIGARETTES, PETROL, AND OTHER PRODUCTS, CONDEMNING "UNSCRUPULOUS TRADERS WHO HAD NO CONSIDERATION FOR THE PEOPLE, THE COUNTRY AND FOR THAT MATTER THEIR RELIGION WHICH FORBIDS PROFITEERING AND HOARDING." HE REITERATED THE GOVERNMENT'S COMMITMENT TO HOLD DOWN PRICES AND ASKED THE PRIVATE SECTOR TO GIVE HIM ITS SUGGESTIONS FOR MAINTAINING PRICES AT A REASONABLE LEVEL. THERE HAVE BEEN NUMEROUS REPORTS OF SHORTAGES AND AT LEAST THREE HIGH-LEVEL OFFICIALS HAVE LOST THEIR JOBS, AT LEAST PARTIALLY BECAUSE OF THE SCARCITY OF ESSENTIAL COMMODITIES. AS THE PUBLICATION DATE FOR THE BUDGET DRAWS CLOSER, THE SCARCITIES WILL BECOME WORSE SINCE

TRADERS TRADITIONALLY HOLD BACK GOODS IN EXPECTATION OF TAX  
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INCREASES WHICH CAN BE CAPITALIZED IN THE PRICES OF EXISTING STOCK.

8. COMMENT: ZIA OBVIOUSLY WENT INTO THAT BASTION OF KARACHI CAPITALISM (THE STOCK EXCHANGE) PREPARED TO TELL THE FINANCIAL COMMUNITY WHAT IT WANTED TO HEAR. ZIA'S POLICY PRONOUNCEMENTS AND THE OVERALL TONE OF HIS SPEECH INDICATE THAT, ALTHOUGH HE HAD SOME MISGIVINGS ABOUT CERTAIN ANTI-SOCIAL BEHAVIOR OF SOME IN THE PRIVATE SECTOR, HE IS STILL DISPOSED TO ESTABLISH RULES THAT BUSINESS WOULD LIKE. HIS OVERALL THRUST PLACES HIS ADMINISTRATION SQUARELY IN THE FIRST OF THE TWO ECONOMIC PERIODS, HE DESCRIBED I.E., PRE-BHUTTO. DURING THE "GOLDEN AGE OF THE SIXTIES," A REFERENCE WE HAVE HEARD OFTEN FROM GOP OFFICIALS, THE INCENTIVES UNDOUBTEDLY CONTRIBUTED TO RAPID, IF SOMEWHAT UNBALANCED, GROWTH; BUT THEY WERE NOT CONDUCIVE TO AN EQUITABLE DISTRIBUTION OF INCOME. THIS GOVERNMENT IS ALSO COMMITTED TO A BASIC HUMAN NEEDS DEVELOPMENT STRATEGY AND TO REDUCING THE INCOME GAP BETWEEN RICH AND POOR, EVEN THOUGH ZIA NOW SAYS THAT PAST ATTEMPTS TO HAVE A MORE EQUAL DISTRIBUTION OF WEALTH FAILED AND LEFT THE COUNTRY IN A STATE OF DISORDER. ZIA DID NOT MAKE CLEAR HOW HE PLANS TO OFFER 1960S TYPES OF INCENTIVES UNDER A GROWTH WITH EQUITY PHILOSOPHY; SUCH GAPS BETWEEN BROAD POLICY PRONOUNCEMENTS AND BASIC IMPLEMENTING STRATEGY ARE, OF COURSE, NOT UNCOMMON.

9. ZIA'S CONCRETE POLICY STATEMENTS ON TAXES AND DENATIONALIZATION WILL BE WELCOMED BY THE PRIVATE SECTOR, HOWEVER MUCH OF THAT SECTOR IS BY NOW CYNICAL AND SKEPTICAL OF HOW MUCH ZIA CAN AND WILL DELIVER AND HOW LONG SUCH MEASURES WILL LAST.

10. ONE CAN FAIRLY SAY THAT ZIA'S SPEECH WAS TAILED TO THE AUDIENCE. HOWEVER, THE MEASURES HE HAS OUTLINED WILL APPEAR TO HIS BROADER AUDIENCE AS FURTHER INDICATION THAT HIS REGIME IS ALIGNED WITH THOSE IN THIS SOCIETY WHO ARE AMONG ITS MOST LIMITED OFFICIAL USE

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PRIVILEGED -- BIG LANDOWNERS, BIG BUSINESSMEN, BIG INDUSTRIALISTS, ETC. -- RATHER THAN WITH THE POPULAR ASPIRATIONS OF THE VAST MAJORITY OF ITS CITIZENS WHO AT BEST ARE DESPERATELY POOR. WHILE HIS POLICIES, AS OUTLINED, MAY HOLD THE PROSPECT FOR MORE RAPID DEVELOPMENT THAN THE BHUTTO-ERA DISTRIBUTIVE AND POPULIST APPROACH, HIS PERSONAL COMMITMENT TO THEM AND THE WAY HE FORMULATED THEM AT THE STOCK EXCHANGE WILL DO LITTLE TO ASSURE THAT LARGER NUMBER OF PAKISTANIS WHOSE DESTINY IS IN HIS HANDS

THAT HE HAS THEIR INTERESTS AT HEART. AS HE APPROACHES HIS FIRST YEAR ANNIVERSARY IN POWER, HIS POLITICAL SUPPORT IS LAGGING, AND HE HAS HAD TO ADMIT THE FAILURE OF HIS EFFORTS TO ORGANIZE A "NATIONAL GOVERNMENT" (SEPTEL). THE POLICIES OUTLINED IN THIS SPEECH WILL DO LITTLE TO COUNTER HIS GRADUAL LOSS OF PUBLIC SUPPORT OR THE SUSPICION THAT UNDER THIS REGIME, IT IS THE HAVESES WHO WILL GET. HOW SERIOUS HE IS WILL BECOME APPARENT WHEN THE BUDGET AND THE NEW FIVE YEAR PLAN COME OUT LATER THIS WEEK.

HUMMEL

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## Message Attributes

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